Annual Report 1956

PEPSI-COLA COMPANY

ANNUAL MEETING

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at two o'clock in the afternoon, on Wednesday, May 1. An official Notice together with a Proxy and a Proxy Statement accompany this Annual Report.

It is hoped that as many Stockholders as are able will attend.

If you cannot attend, however, please sign and mail back the enclosed Proxy.

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BOARD OF DIRECTORS

James W. Carkner
Honorary Chairman of the Board

Dr. Louis A. Rezzonico
Industrialist

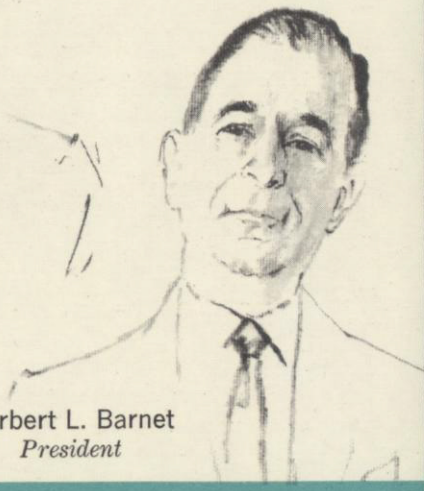
Sheldon R. Coons
Business Consultant

Harry E. Gould
President, Reinhold-Gould, Inc.

James G. Blaine
Chairman of the Board The Marine Midland Trust Company

Mortimer Hays
Member Hays, Podell, Algase, Crum & Feuer

Alfred N. Steele
Chairman of the Board and Chief Executive Officer



Herbert L. Barnet
President

Charles Allen, Jr.
Senior Partner, Allen & Company

James Felt
Chairman New York City Planning Commission

C. E. Holzworth
Vice-President and Director, retired S. S. Kresge Company

Milward W. Martin
Vice-President and Secretary

George C. Textor
President The Marine Midland Trust Company

MEETING WITH BOARD
Louis E. Nufer
Financial Vice-President and Treasurer

ANNUAL REPORT

PEPSI-COLA COMPANY

1956

TO STOCKHOLDERS

PEPSI-COLA COMPANY
3 West 57th Street, New York 19, N.Y.
MURRAY HILL 8-4500

Alfred N. Steele
CHAIRMAN OF THE BOARD

To the Stockholders of Pepsi-Cola Company:

In 1956, as in each of the preceding four years, Pepsi-Cola reached the highest sale in its history and continued to show the most dynamic vitality in the soft-drink industry.

The rate of our sales growth was well in excess of that estimated for the industry as a whole, and we ended the old year and entered the new on this same high level of progress.

All this came about despite the fact that during the summer -- historically our peak season -- temperatures across the country and most particularly the populous eastern half turned abnormally cool and fell far below those of the preceding summer. In addition, we suffered an unavoidable work stoppage which closed our largest concentrate and bottling plants for a month during this same peak season. Yet, in the face of this, both at home and abroad, we sold more Pepsi-Cola than ever before.

In response to these flourishing increases and out of their high faith in future progress, the Bottlers of Pepsi-Cola invested more money in the business by far than ever before; domestically, in physical equipment alone -- plants and the machinery of production and transportation -- this sum exceeded $31,000,000.00.

During the year we purchased property on Park Avenue in New York City on which we will erect a new and distinguished structure as world headquarters of your Company.

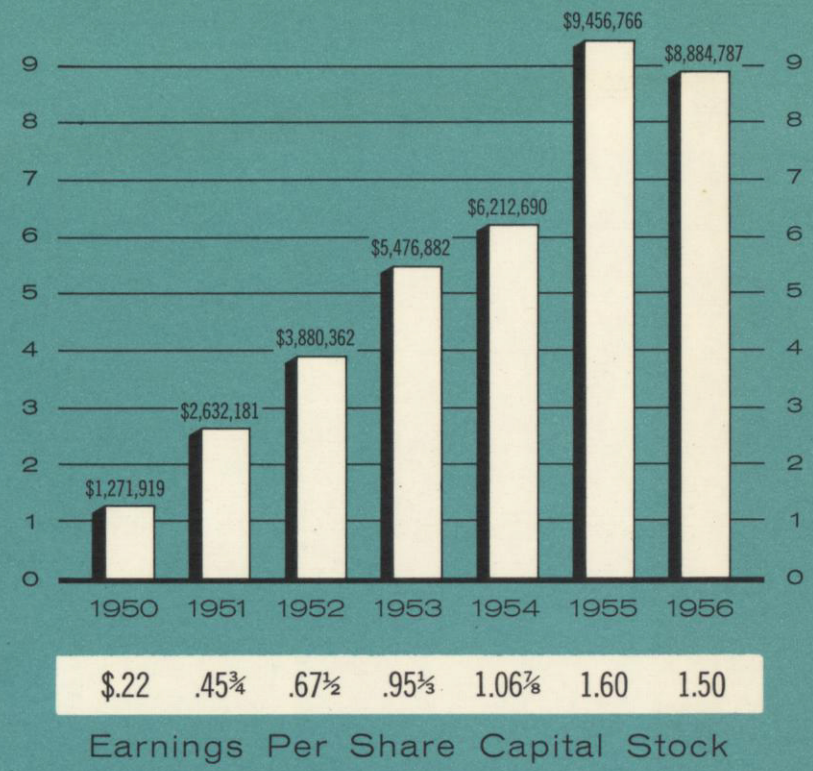
Having constructed and implemented plans and policies under which Pepsi-Cola continues to be the industry's leader in growth, we look forward confidently to even higher achievements.

On the following pages you will see both a record of the past year and a foreshadowing of the days to come.

Alfred N. Steele

Alfred N. Steele
Chairman of the Board
and Chief Executive Officer

NET INCOME



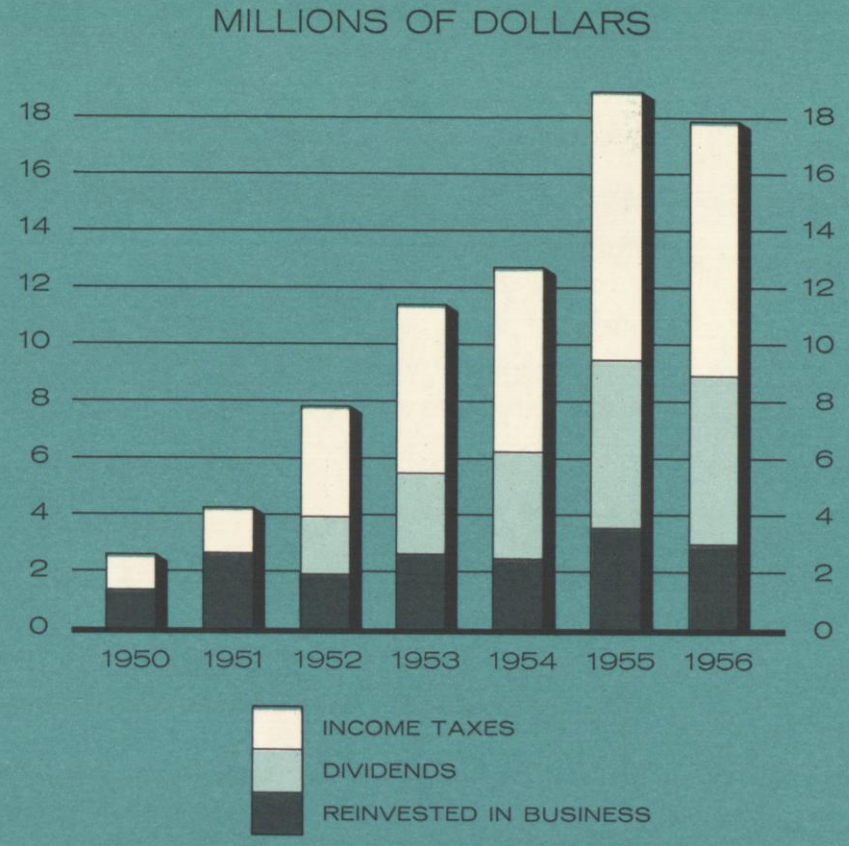
OUR FINANCIAL POSITION

EARNINGS

BECAUSE OF THREE MAJOR EVENTS, all unforeseeable and unavoidable, a notable sales growth was not followed by growth in earnings. At the peak of our selling season, a strike in the Company's largest bottling plant, concentrate plant, and sugar refinery added heavily to expense. During the summer months when sales and profits are normally at their peak, temperatures fell so far below those of the preceding summer as to affect our earnings adversely. Circumstances in several foreign countries brought on currency restrictions which prevented Bottlers there from receiving their normal shipments of concentrate.

Earnings *before* taxes were $17,884,787 in 1956, compared with $18,880,766 in 1955. This represents a decrease of 5.3 per cent. Federal and foreign income taxes on 1956 earnings were $9,000,000 compared with $9,424,000 in 1955.

APPLICATION OF EARNINGS



Earnings *after* taxes in 1956 were $8,884,787 compared with $9,456,766 in 1955. This represents a decrease of 6.0 per cent.

Earnings per share on the 5,918,655 shares of capital stock outstanding at the end of 1956 were $1.50 compared with $1.60 in 1955 on 5,909,005 shares outstanding.

DIVIDENDS

THE REGULAR QUARTERLY DIVIDEND of 25¢ per share, previously authorized in November of 1955, was continued so that total payment to stockholders was $1.00 per share.

Declared	Amount	Paid
February 23, 1956	25¢	March 31, 1956
May 24, 1956	25¢	June 30, 1956
August 23, 1956	25¢	September 28, 1956
November 29, 1956	25¢	December 31, 1956
TOTAL 1956: $1.00		

Since dividends were resumed in 1952, total payments have been $20,464,392 or $3.50 per outstanding share.

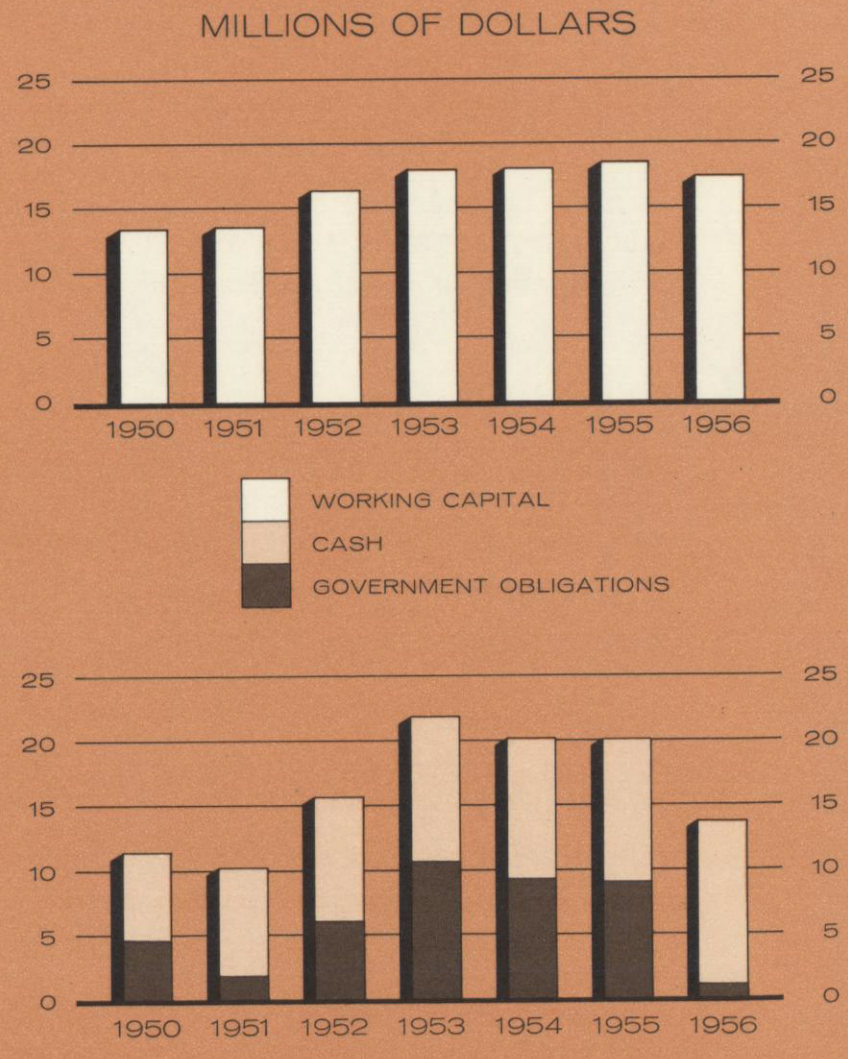
CAPITAL EXPENDITURES

DURING 1956 SUBSTANTIAL EXPENDITURES were made for expansion in the business—to increase bottling facilities and to purchase bottles, cases, automotive equipment, coolers, vending machines, and other tools of the trade. Expenditures for these purposes amounted to $12,280,000 in 1956, making a total of $54,100,000 devoted to expansion during the last seven calendar years.

SALES

IN 1956 REPORTED CASE SALES in the United States were the highest in the Company's history, representing an increase of 9 per cent over 1955. This was a rate of growth more than double that estimated for the industry as a whole.

WORKING CAPITAL, CASH AND GOVERNMENT OBLIGATIONS

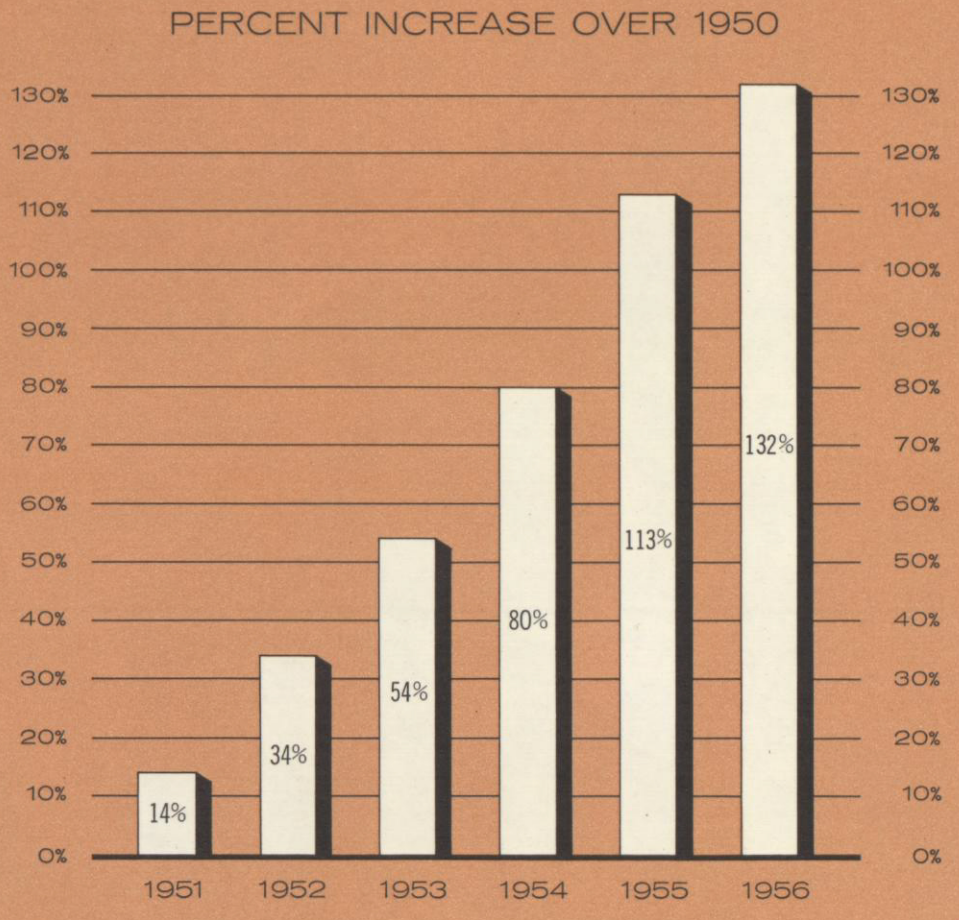


After six consecutive years of growth, case sales in 1956 were 132 per cent greater than those of 1950, when present management assumed direction of the Company.

Although the cooler summer temperatures, substantially below those of the preceding summer, were an uncontrollable impediment to progress during our historic peak season, our sales so promptly rebounded that rate of increase during the last quarter of the year was almost triple what it had been in June, July, and August. We thus entered the new year at a rate exceeding the percentage growth of 1956 as a whole.

By the end of the year, 55 domestic plants were selling more than one million cases a year; this compares with 13 such plants in 1950 and 51 in 1955. Moreover, 413 operations reached new per capita sales records as compared with 313 which did so in 1955.

DOMESTIC CASE SALES GAINS



Pepsi...

THE WORLD OVER

Herbert L. Barnet (right), President of Pepsi-Cola Company and Henry M. Winter, President of the subsidiary responsible for foreign development, Pepsi-Cola International, Ltd.

THROUGHOUT THE UNITED STATES and the seventy-five other countries where Pepsi-Cola is bottled and distributed from approximately eight hundred bottling plants, the booming growth of the light refreshment set new standards of popularity. Whether in Memphis, Montreal, Mexico City, or Madrid, whether in the District of Columbia, the city of Caracas, or the Isle of Mauritius, people drank more Pepsi-Cola than ever before in history.

In achieving these new levels Bottlers received the strong support of many activities of the Pepsi-Cola Company, some of which are outlined on the following pages.

ADVERTISING

MAGAZINE

NEWSPAPER

TELEVISION

CONTINUING the highly appealing and successful theme of "The Light Refreshment" for the fifth consecutive year, in 1956 the Company made the heaviest investment in advertising it has ever made. This theme, now being paid the tribute of imitation by other advertisers of food and drink, was again presented with sprightly good taste featuring today's women, who purchase at least two-thirds of all soft drinks sold.

Our advertising in print media alone—through national magazines, Sunday supplements, and newspapers—reached more than six hundred and fifty million people, and other media reached countless millions.

By investing more money than ever before in advertising through newspapers, television, radio, three-sheet posters, and point-of-sale materials, all of which carry through the national themes and styles, Bottlers again identified their programs with the national campaign at local level.

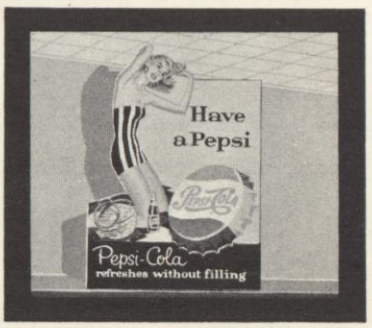
Field representatives prepared campaigns tailored to selected local markets; among several such highly successful operations were the popular "Pepsi, Please" campaign and introductory materials for new bottle sizes.

Following a series of experiments in the best manner of presenting the Pepsi-Cola image to the buying public, our advertising was thrice honored with special acclaim. Our television commercials were selected by a panel of advertising experts as among the ten best produced in America; one of our twenty-four-sheet posters was selected as among the three best of the year; and our point-of-sale material (used for display in trade outlets) won wide honors from various printing houses.

Following the adaptation of domestic materials to foreign markets, built on the theme of Pepsi-Cola as the "Refreshment of Friendship," Bottlers overseas also invested more money in advertising than ever before.

Through adroit preparation of advertising materials best suited to the tastes of each individual country concerned, Pepsi-Cola holds a familiar and high stature everywhere.

OUTDOOR



POINT OF PURCHASE

RADIO

SALES PROMOTION

USE IN BOTTLING PLANTS of sales promotion ideas, tools, devices, and services provided by the Company again exceeded that of any previous year.

Spurred by the stimulus of a sales contest conducted nationally in the last quarter of the year salesmen placed in outlets more than ten times as many vending machines as they had placed in the similar period of the preceding year. Through these machines in 1957 alone several millions of additional cases will be sold to thousands upon thousands of new customers.

For use at special events, portable refreshment stands the Company had designed sold far in excess of every anticipation, as did other sales instruments.

At more than fifty national conventions of people whose influence on community custom and taste is strong we served Pepsi-Cola from especially designed attractive booths to more than four hundred thousand people. Notably spectacular among these were the conventions of the two national political parties in Chicago and San Francisco, where more than 200,000 drinks of Pepsi-Cola were served to delegates, newsmen, and other dignitaries in the exciting atmosphere of these historic occasions. The tremendous success of this large-scale activity was publicized by innumerable newspapers, television shots during the conventions, radio commentators, and national magazines, including LIFE *and* TIME.

During 1956, the traveling Route Management School, which put more than

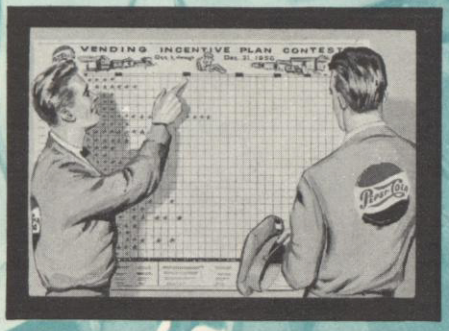
ROUTE SELLING

COLD BOTTLE OUTLETS

SPECIAL EVENTS

seven hundred Route Managers from some two hundred plants through dramatic and compact sales training, proved so successful that the staff of the school was doubled to provide twice as many schools in 1957.

The Company's monthly picture newsmagazine, THE PEPSI-COLA WORLD, through which many sales ideas are presented, in 1956 was the only publication in the beverage industry to receive the Merit Award of the New York Employing Printers Association in its annual competitive judgings.



SALES CONTESTS

SALES TRAINING

COMPANY PUBLICATIONS

NATIONAL ACCOUNTS AND SYRUP SALES

INDUSTRIAL GROUPS

MILITARY INSTALLATIONS

GROCERY CHAINS

AS AN ADJUNCT to the sales forces of bottling plants, which cannot go outside their franchises to call on managers of the many chain groups of stores and industries commonplace in America, the Company continued to develop these many groups which have outlets in the territories of more than one Bottler.

During 1956, in chain theatres alone, more than six hundred new accounts were added to the present impressive list, many of them serving no cola but Pepsi-Cola to their thousands of customers. Among these new acquisitions were the two largest theatre circuits in Texas and a major chain operating over five Southern states.

Among other chain outlets opened were one of the three largest plants in its industry, the snack bars of the world's largest retail mail order firm, and the post houses of the largest transcontinental bus system.

Pepsi-Cola is now commonly sold at almost every state and county fair, outdoor show, and sporting event of every kind where concessionaires sell the product to millions of pleasure seekers.

More than 3,000 animated mass display pieces were erected in supermarkets throughout the country; many grocery stores installed Pepsi vending machines, some as the exclusive drink sold.

Increased sales among the armed forces were notable, especially in the installation of vending equipment aboard many additional ships, including the supercarrier *Saratoga.*

Increases in sales of fountain syrup were dramatic; through Bottlers and the efforts of specially trained crews made available to them, thousands of fountain dispensing units were installed and thousands of new outlets opened. Some of the largest drug and variety chains considerably increased their investment in fountain equipment for Pepsi, and many installed permanent illuminated signs advertising the product at their fountains. Thus, fountain syrup sales were up 29 percent over 1955; measured against the sale of 1950, this is an increase of 234 percent.

DRUG AND VARIETY CHAINS

CONCESSIONS

THEATER CHAINS

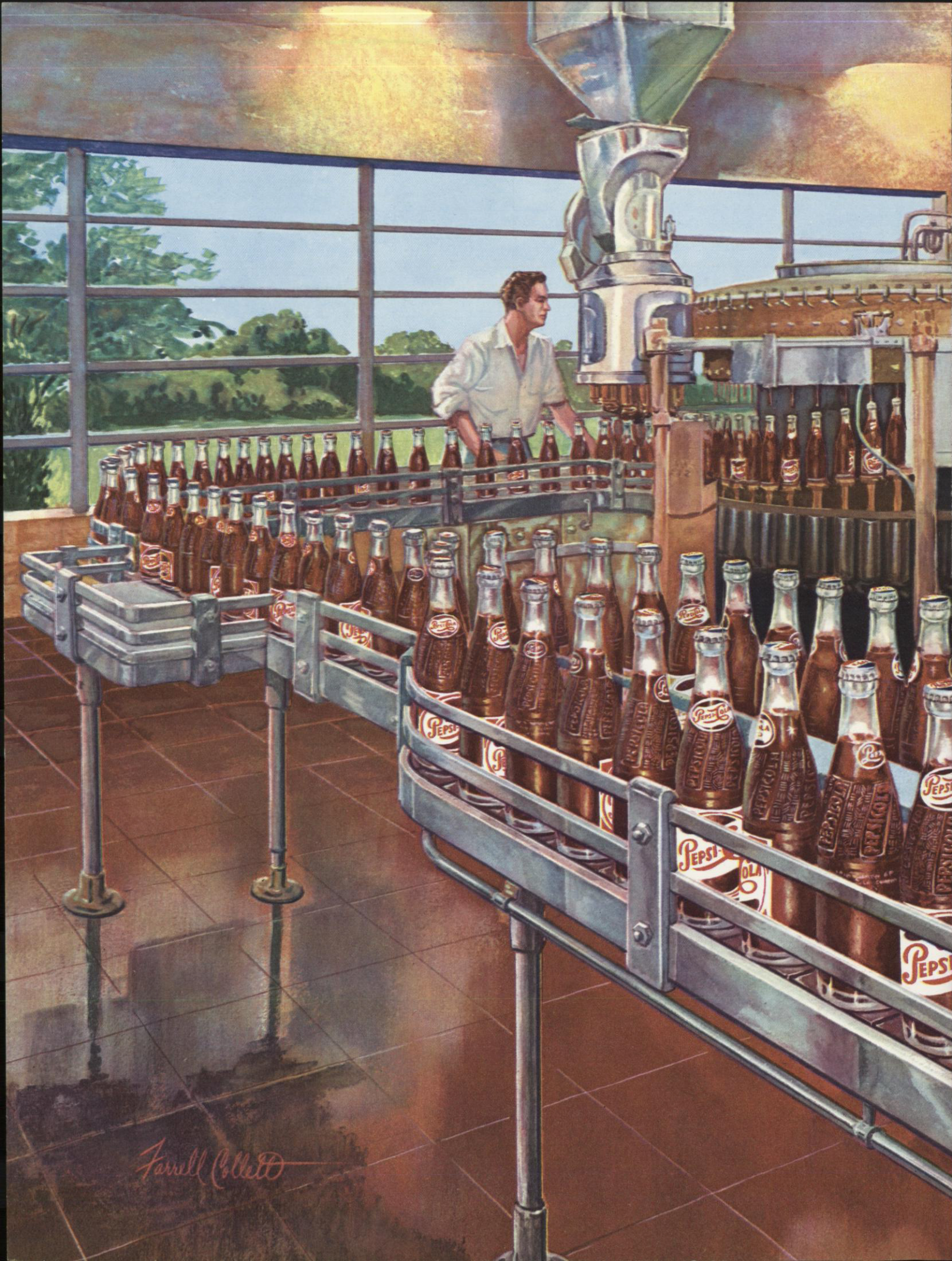
MANUFACTURING, RESEARCH AND PRODUCT CONTROL

IRREVOCABLY DEDICATED to producing a uniform product of incomparably high quality, the Company and the Bottlers of Pepsi-Cola leave nothing undone which serves this determination. Through continuous inspection, supervision, and research, they not alone guard the quality of the product at every step but also test and analyze its ingredients, improve the methods of its handling and production toward perfection, and investigate all processes and new product ingredients which might be of use to the Company or to its competitors.

In hundreds of inspection trips, seven traveling laboratories helped Pepsi Bottlers keep constant and careful watch on the production of a product of incomparable quality. The Research Laboratory in New York devoted major effort to standardizing control procedures; in addition, it developed new flavors of carbonated beverages and began production of an orange beverage for distribution by Pepsi-Cola International Ltd. It also supervised the packaging of Pepsi in flat-top cans for sale to military forces in the Far East.

Expanding sales required the construction of two new and modern concentrate plants in Offenbach, Germany, and in Feltham, England. New or additional facilities for manufacture were also secured in Sydney, Australia; Porto Alegre, Brazil; and in Montreal, Canada. Property was leased for a new concentrate plant in Bermuda.

PEPSI-COLA
PEPSI-COLA
PEPSI-COLA


Farrell Gillett

PEPSI-COLA
PEPSICOLA
PEPSI

PLANT DESIGN AND ENGINEERING

DURING 1956 increased demand for the product made the Bottlers of Pepsi-Cola the largest purchasers of bottling machinery in the beverage industry.

Bottler investment in new plants, new machinery, and delivery equipment was higher than for any other year in history.

During the year thirty-two new bottling plants were completed in Batesville and Jonesboro, Arkansas; Talladega, Alabama; Phoenix, Arizona; Baldwin Park and Watsonville, California; Marion and Chicago, Illinois; Logansport and Muncie, Indiana; Davenport, Iowa; Ottawa, Kansas; Joplin and Springfield, Missouri; Great Falls, Montana; Geneva, Syracuse, and Utica, New York; Minot, North Dakota; Greensboro and Lumberton, North Carolina; Lawton, Oklahoma; Roseburg, Oregon; Altoona, Pennsylvania; Charleston, South Carolina; Rapid City, South Dakota; Waco and Wichita Falls, Texas; Richmond, Virginia; Moundsville and Parkersburg, West Virginia; and De Pere, Wisconsin.

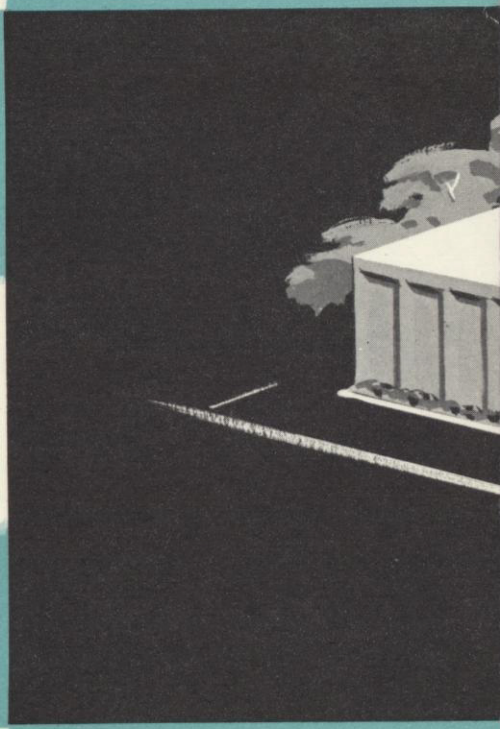
In addition to this construction, existing facilities were enlarged at thirty-two other locations, and construction was begun on eleven additional plants for completion in 1957.

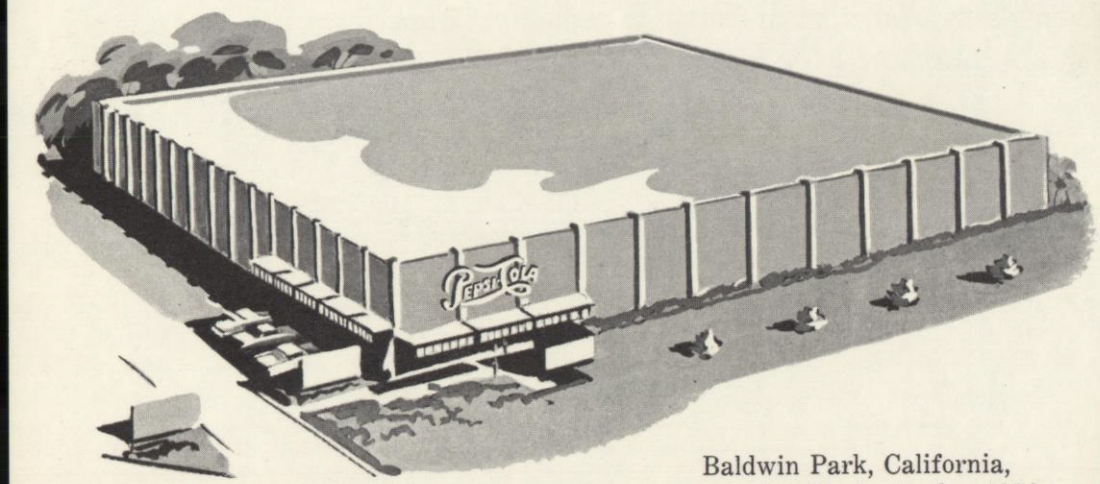
The installation of new bottling lines at twenty-five plants and installation of units of larger productive capacity at thirty-two others increased annual bottling capacity. More equipment was also purchased for installation in 1957.

NEW PLANTS

Syracuse, New York,
completed in April 1956.

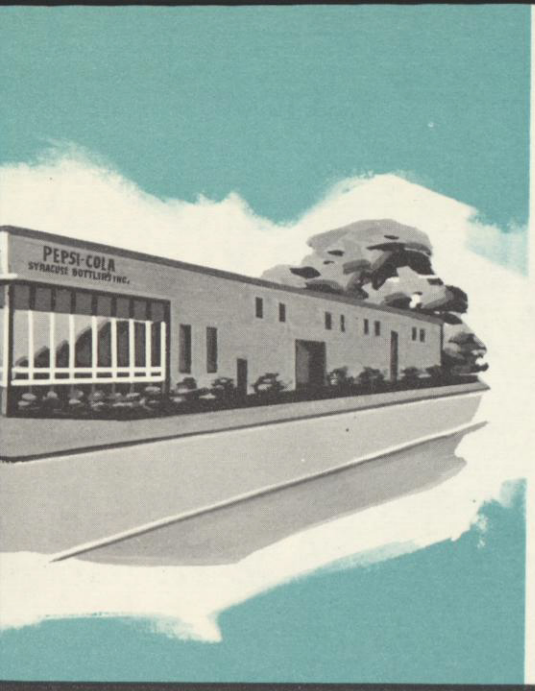
Muncie, Indiana,
completed in December 1956.



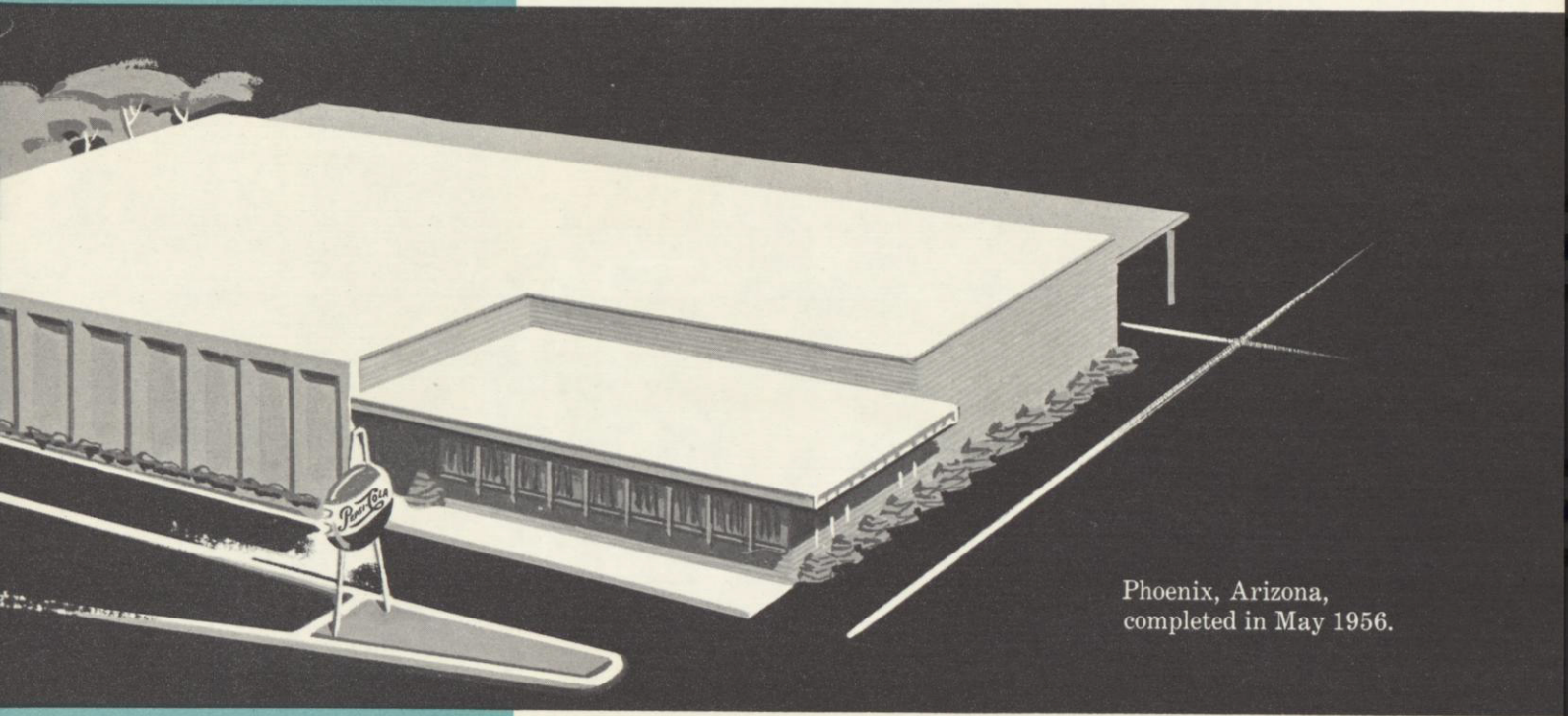


Baldwin Park, California,
completed in September 1956.

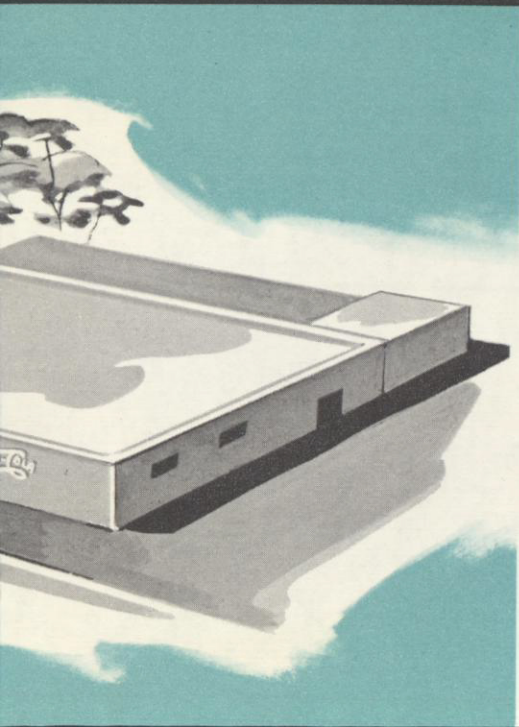
Jonesboro, Arkansas,
completed in May 1956.

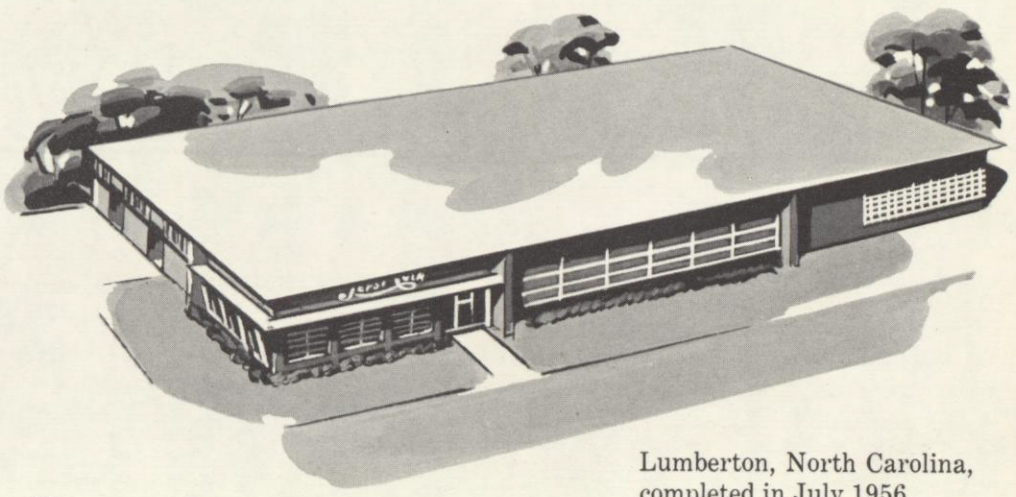


Montreal, Canada,
completed in September 1956.



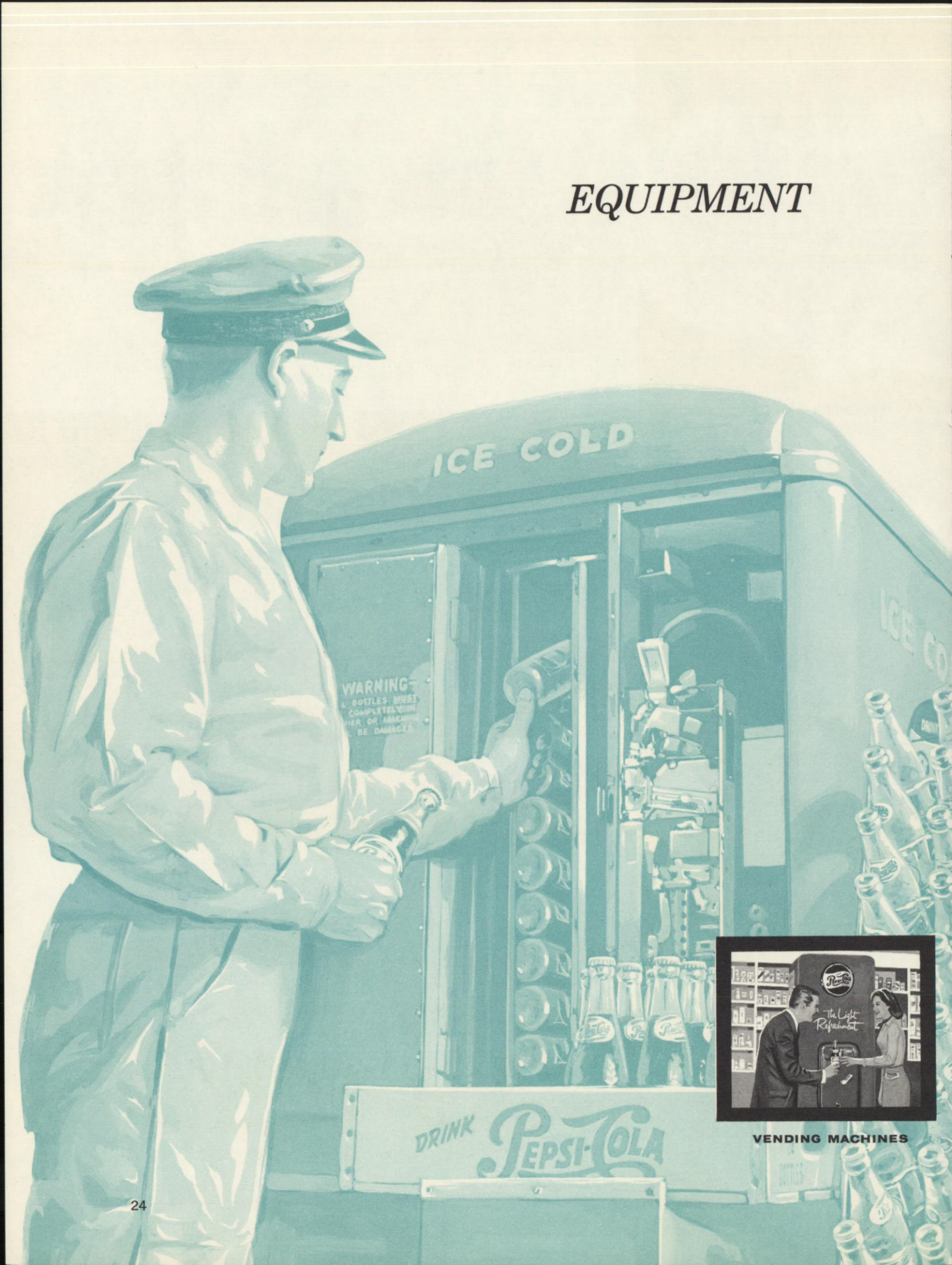
Phoenix, Arizona,
completed in May 1956.





Lumberton, North Carolina,
completed in July 1956.

EQUIPMENT



VENDING MACHINES

BOTTLER PURCHASES of the new and complete line of vending machines which the Company engineered, developed, and procured were not merely the largest in history; they were two and one-half times as large as in the previous peak year of 1955. Many of these purchases were stimulated by a traveling caravan which displayed available machines to gatherings of Bottlers in key cities across the country.

The increasing popularity of Pre-Mix, a new method by which the product is mixed with precision at the bottling plant rather than in the vending machinery at the point of sale, foreshadowed even greater future expansion of this type of machine. The speed with which Pre-Mix machines deliver the finished drink was dramatized by such experiences as the sale of 400,000 drinks in one week at a state fair in the Middle West, and the sale of 27,000 at a Southern football stadium in two hours.

Toward the end of the year a six-bottle carton with new copy and design was introduced to the public; making use of familiar symbols and bright, eye-catching colors whether singly or in mass display it quickly demonstrated its sales advantages, and will become commonplace throughout the country in 1957.

Continuous experiments on the properties of bottles, cartons, and cases required enlarging of the laboratory facilities in New York.

The search for physical tools which contain, deliver, and display the product to the best sales advantage—whether in bottle, case, carton, or display stand—is never-ending.

DISPLAY STANDS

FOUNTAIN EQUIPMENT

CASES, CARTONS, BOTTLES

METROPOLITAN BOTTLING COMPANY, INC.

METROPOLITAN BOTTLING COMPANY, INC., a subsidiary of Pepsi-Cola Company, operates seventeen bottling plants in fifteen cities across the United States—Phoenix, Arizona; Jersey City, New Brunswick, and Teterboro, New Jersey; New York, New York (two plants); Boston and Springfield, Massachusetts; Philadelphia (two plants) and Pittsburgh, Pennsylvania; Memphis and Nashville, Tennessee; Houston and Waco, Texas; Alexandria, Virginia; and Milwaukee, Wisconsin.

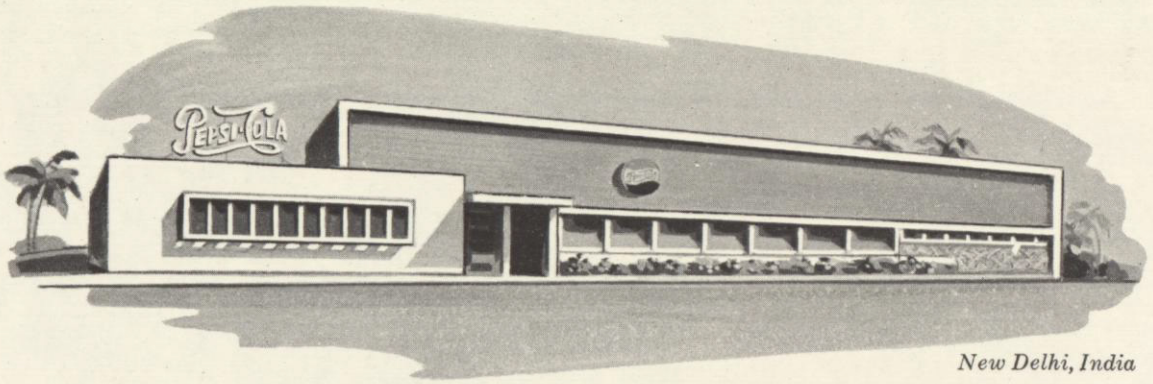
During 1956, to keep pace with the increasing demand for Pepsi and to provide for future growth, we constructed and began operations in a new plant in Waco, enlarged the facilities in Springfield, purchased land for new plants to serve Boston and Pittsburgh, and began construction of a new plant in Brooklyn, New York. Operations in the Brooklyn plant and in the plants for which land was purchased will begin in 1957.

PACKAGING

IN SEVERAL MARKETS during the year we tested a newly designed bottle of a size different from our other packages. Containing six and one-half ounces of Pepsi-Cola, it is suitable to many preferences, especially in vending machines, and its reception makes certain its further introduction into many additional markets.

The Hostess bottle ("quart" size), originally introduced in 1955, was added by many other Bottlers so that it is now on sale in well over one hundred markets; as it is authorized for still more territories, its contribution to sales will increase.

With these and its more familiar bottles, your Company now has a complete line of sizes available to every need and choice.



New Delhi, India

PEPSI-COLA INTERNATIONAL, LTD.

FOLLOWING THE RETIREMENT of William Forsythe, who for many years had directed Pepsi's foreign operations, Henry M. Winter, formerly Executive Vice President, was elected President of Pepsi-Cola International. The organization of the Company was strengthened to achieve a large measure of decentralization and immediacy; though policy and direction of the Company remain with the Central Office in New York, decisions on day-to-day matters are now speedily made in local areas by personnel thoroughly familiar with local conditions.

Concurrently with this the executive staff of the home office was greatly strengthened, and in many cases regional managers responsible for large territories of the world outside the United States were promoted in rank and made directors of the Company.

In 1956 more new Pepsi plants outside the United States and Canada were inaugurated than ever before. Totaling eighteen, they were in Tuxpan and Ixtepec, Mexico; Bogotá and Cali, Colombia; Manaus, Brazil; Santiago, Dominican Republic; Oslo, Norway; Canary Islands; Barcelona, Spain; Albshausen, Germany; New Delhi, India; Al Khobar, Saudi Arabia; Abadan, Iran; Aden, Aden; Moshi, Tanganyika; Salisbury, Southern Rhodesia; Broken Hill and Perth, Australia.

These additions brought to a total of 149 the Pepsi plants outside the United States and Canada; combined they serve approximately 237,000,000 people in seventy-four countries. Plans for 1957 include installation of plants in twenty-five new markets.

ADMINISTRATION

IN RECOGNITION of enlarged responsibilities in the Company's greater expansion and increased stature in the industry, the Board of Directors authorized the following administrative changes:

Milward W. Martin, Vice President and Secretary of the Company, and George C. Textor, President of The Marine Midland Trust Company, were made members of the Board of Directors.

Neil Morrison, who heads the Plant Design and Engineering Department, and Seymour Lusterman, Director of Market Research, were elected Vice Presidents of the Company, effective in 1957.

In May, William B. Forsythe retired as a member of the Board but continued in a consultative status with the Company.

FINANCIAL STATEMENTS

ACCOUNTANTS' CERTIFICATE

HASKINS & SELLS
Certified Public Accountants

67 Broad Street
New York 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the balance sheet of Pepsi-Cola Company and consolidated subsidiaries as of December 31, 1956 and the related summaries of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the related summaries of consolidated income and surplus present fairly the financial position of the companies at December 31, 1956 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 15, 1957

SEVEN-YEAR COMPARISON

FINANCIAL RESULTS

	1956	1955	1954	1953	1952	1951	1950
Gross Profit on Sales	$69,139,792	$62,823,327	$51,787,727	$45,419,752	$35,022,415	$30,216,383	$23,765,879
Income Before United States and Foreign Income Taxes	17,884,787	18,880,766	12,703,690	11,384,412	7,834,126	4,192,890	2,544,610
Net Income	8,884,787	9,456,766	6,212,690	5,476,882	3,880,362	2,632,181	1,271,919
Earnings Per Share	1.50	1.60	1.06⅞	.95⅓	.67½	.45¾	.22
Dividends	5,915,830	5,897,090	3,769,493	2,871,752	2,010,227	—	—
Dividends Per Share	1.00	1.00	.65	.50	.35	—	—
Shares Outstanding	5,918,655	5,909,005	5,813,155	5,743,505	5,743,505	5,736,005	5,736,005

FINANCIAL POSITION

	1956	1955	1954	1953	1952	1951	1950
Current Assets	$32,018,582	$32,803,026	$29,309,566	$29,850,407	$23,459,670	$18,538,797	$17,248,807
Current Liabilities	14,566,258	14,300,372	11,227,522	11,854,418	7,048,898	4,830,536	3,784,171
Working Capital	$17,452,324	$18,502,654	$18,082,044	$17,995,989	$16,410,772	$13,708,261	$13,464,636
Fixed Assets–Net	24,323,023	20,103,341	17,172,325	14,758,730	13,980,506	15,044,434	10,939,904
Other Assets	6,390,925	5,180,719	4,305,246	3,963,617	3,720,446	3,374,015	3,171,161
Total	$48,166,272	$43,786,714	$39,559,615	$36,718,336	$34,111,724	$32,126,710	$27,575,701
Long Term Obligations and Customers' Deposits	6,002,051	4,692,600	4,939,642	5,111,280	5,109,798	5,309,341	5,221,898
Stockholders' Equity	$42,164,221	$39,094,114	$34,619,973	$31,607,056	$29,001,926	$26,817,369	$22,353,803

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1956 AND 1955

Pepsi-Cola Company and Consolidated Subsidiaries

ASSETS	1956	1955
CURRENT ASSETS:		
Cash	$12,743,866	$11,376,548
United States Government obligations—at cost (market valuation—1956, $1,018,040)	1,016,819	8,995,924
Notes and accounts receivable (less allowance for doubtful receivables—1956, $385,065; 1955, $407,327)	11,115,450	5,366,380
Inventories:		
Finished, in-process, raw materials and supplies	4,743,713	4,693,945
Vending equipment held for resale	2,398,734	2,370,229
Total current assets	$32,018,582	$32,803,026
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	$ 1,493,497	$ 1,236,864
Investment in and advances to subsidiaries not consolidated	492,501	496,018
Other	475,671	582,792
Total miscellaneous assets	$ 2,461,669	$ 2,315,674
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1956, $12,305,797; 1955, $10,676,005)	$18,674,921	$14,996,018
Bottles and cases on hand and with trade (at estimated depreciated values)	5,648,102	5,107,323
Total property, plant and equipment—net	$24,323,023	$20,103,341
DEFERRED DEBIT ITEMS:		
Prepaid insurance, taxes, etc.	$ 548,101	$ 482,649
Advertising materials and expenses	2,983,427	2,038,066
Other	397,727	344,329
Total deferred debit items	$ 3,929,255	$ 2,865,044
TRADEMARKS, FORMULAS AND GOODWILL	$ 1	$ 1
TOTAL	$62,732,530	$58,087,086

Reference is made to the accompanying Notes to Financial Statements starting at Page 35

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1956 AND 1955

Pepsi-Cola Company and Consolidated Subsidiaries

LIABILITIES	**1956**	**1955**
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term obligations)	$ 419,634	$ 422,650
Accounts payable and accrued	4,985,720	4,077,324
Accrued taxes:		
United States and foreign income taxes	7,785,824	8,457,440
Other taxes	1,375,080	1,342,958
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	$14,566,258	$14,300,372
OTHER LIABILITIES:		
Long-term obligations (current installments included above):		
Note payable to insurance company, 3%, due June 1, 1963, payable $333,000 annually	$ 1,666,000	$ 1,999,000
Note payable to bank, 4%, due May 11, 1961	179,695	
Mortgage payable, 4½%, payable $66,668 annually, balance due October 3, 1961	1,249,998	
Customers' deposits on bottles and cases	2,906,358	2,693,600
Total other liabilities	$ 6,002,051	$ 4,692,600
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1956, 5,918,655 shares	$ 1,972,885	$ 1,969,668
Capital surplus	7,054,420	6,956,487
Earned surplus	33,136,916	30,167,959
Total capital stock and surplus	$42,164,221	$39,094,114
TOTAL	$62,732,530	$58,087,086

Reference is made to the accompanying Notes to Financial Statements starting at Page 35

SUMMARY

Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED INCOME

for the years ended December 31, 1956 and 1955

	1956	1955
Gross Profit on Sales	$69,139,792	$62,823,327
Advertising, Selling, Shipping, General and Administrative Expenses	52,091,110	44,462,569
Profit from Operations	$17,048,682	$18,360,758
Other Income	1,051,154	708,911
Gross Income	$18,099,836	$19,069,669
Income Charges	215,049	188,903
Income Before Provisions for Income Taxes	$17,884,787	$18,880,766
Provisions for United States and Foreign Income Taxes:		
United States	$ 7,068,000	$ 7,386,000
Foreign	1,932,000	2,038,000
Total	$ 9,000,000	$ 9,424,000
Net Income	$ 8,884,787	$ 9,456,766

CONSOLIDATED SURPLUS

for the year ended December 31, 1956

	EARNED SURPLUS	CAPITAL SURPLUS
Balance, January 1, 1956	$30,167,959	$ 6,956,487
Net Income for the Year	8,884,787	
Excess of Proceeds Over Par Value of 9,650 Shares of Capital Stock Issued Under Stock Option Plans		97,933
Total	$39,052,746	$ 7,054,420
Dividends ($1.00 a share)	5,915,830	
Balance, December 31, 1956	$33,136,916	$ 7,054,420

Reference is made to the accompanying Notes to Financial Statements starting at Page 35

NOTES TO FINANCIAL STATEMENTS

December 31, 1956

1. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.

2. The current assets and liabilities, total assets and liabilities, earned surplus, and net income of foreign subsidiaries, which are included in the 1956 consolidated financial statements, are as follows:

	Canadian subsidiaries	Cuban subsidiary	Mexican subsidiaries	French subsidiary	Brazilian subsidiary	German subsidiary
Current assets	$2,000,439	$ 408,080	$2,160,916	$190,282	$187,415	$204,931
Current liabilities	429,809	119,004	462,829	70,505	37,529	64,949
Total assets	5,487,951	1,826,882	2,976,042	427,794	259,854	428,091
Total liabilities	872,821	272,164	462,829	70,505	37,529	264,610
Earned surplus (deficit)	2,331,687	(1,026,505)	1,858,129	76,449	18,851	(341,505)
Net income (loss) for year	724,351	(42,517)	316,341	(46,619)	11,659	(135,984)

The assets and liabilities of these subsidiaries have been translated into United States dollars at current rates of exchange; income and expenses have been translated at rates prevailing during the year.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

3. Because of continuing stringent foreign exchange restrictions, the accounts of the British subsidiary (and its subsidiaries) are excluded from the consolidated financial statements. The current assets and liabilities and total assets and liabilities of these subsidiaries, and the parent company's equity, at December 31, 1956, and the subsidiaries' net loss for the year are as follows:

Current assets	$ 782,203
Current liabilities	556,243
Total assets	1,690,833
Total liabilities	556,765
Parent company's equity in net assets	1,134,068
Net loss for year	85,033

4. The Federal income tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1950; the tax returns for the years 1951 and 1952 are under examination.

NOTES TO FINANCIAL STATEMENTS · CONTINUED

5. During 1952 and 1956 the stockholders approved the adoption of Stock Option Plans under which 400,000 shares of the Company's capital stock were made available for the granting of options to officers and key employees. The following is a summary of transactions under the Plans during 1956:

	Number of Shares	Option Value	Market Valuation at Dates of Grant
Shares under option at December 31, 1955	135,450	$2,644,067	$2,800,818
Options granted during year	50,000	1,134,063	1,193,750
TOTAL	185,450	$3,778,130	$3,994,568
Options exercised during year	9,650	$ 101,149	$ 111,362
Options lapsed during year	1,500	28,897	31,187
TOTAL	11,150	$ 130,046	$ 142,549
Shares under option at December 31, 1956	174,300	$3,648,084	$3,852,019

Options are exercisable within five years from the respective dates of the grants. At December 31, 1955 and 1956, 107,550 shares and 59,050 shares, respectively, were available for grants.

6. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1956 approximately $5,996,000 of earned surplus was free of such restrictions.

7. At December 31, 1956 the Company and consolidated subsidiaries were contingently liable as guarantors of bank loans, principally to various franchised Bottlers, aggregating $3,272,510.

8. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to $2,630,000 in 1956, and $2,056,000 in 1955.

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OFFICERS

BOARD OF DIRECTORS

Alfred N. Steele
Chairman
James W. Carkner
Honorary Chairman
Charles Allen, Jr.
Herbert L. Barnet
James G. Blaine
Sheldon R. Coons
James Felt
Harry E. Gould
Mortimer Hays
Christopher E. Holzworth
Milward W. Martin
Dr. Louis A. Rezzonico
George C. Textor

OFFICERS

Chairman of the Board
and Chief Executive Officer
Alfred N. Steele

President
Herbert L. Barnet

Vice-Presidents

John L. Bate
Western Division
Richard H. Burgess
Domestic Sales
D. Mitchell Cox
Sales Promotion
J. Charles Derrick
Advertising
William C. Durkee
Central Division
Thomas Elmezzi
Manufacturing
Stephen L. Galvin
Director of Research
Eugene B. Gilbert
Southern Division
Stephen J. Gullo
Product Control
Donald M. Kendall
National Accounts
and Syrup Sales
Seymour Lusterman
Market Research
Milward W. Martin
Secretary, Law Department
Henry E. McGovern
Equipment
Neil A. Morrison
Plant Design
and Engineering
Louis E. Nufer
Treasurer
Carl B. Salts
Eastern Division
A. Allen Thomson
Sugar Division

Adolph Krieger, Jr.
Controller

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Alfred N. Steele
Chairman of the Board of Directors
Pepsi-Cola International, Ltd.

H. M. Winter
President of Pepsi-Cola International, Ltd.

Emmett R. O'Connell
President of Metropolitan Bottling Company, Inc.

Frank W. McIntosh
President of Pepsi-Cola Company of Canada, Ltd.

TRANSFER AGENTS

The Marine Midland Trust Company of New York
The First National Bank of Jersey City
Harris Trust and Savings Bank
(Chicago, Illinois)

REGISTRARS

The Chase Manhattan Bank
(New York, N. Y.)
The First National Bank of Chicago
(Chicago, Illinois)

PEPSI-COLA COMPANY

EXECUTIVE OFFICES

3 West 57th Street
New York 19, New York

DIVISIONAL OFFICES

Pure Oil Building
Chicago 11, Illinois (Central)

1012 14th Street, N. W.
Washington 5, D. C. (Eastern)

1005 Mercantile Securities Building
Dallas 1, Texas (Southern)

223 South Beverly Drive
Beverly Hills, California (Western)

REGIONAL OFFICES

1401 Peachtree Building
Atlanta 9, Georgia

Pure Oil Building
Chicago 11, Illinois

4300 LeVeque Lincoln Tower Building
Columbus 15, Ohio

1005 Mercantile Securities Building
Dallas 1, Texas

800 East Colfax Avenue
Denver 18, Colorado

785 Market Street
San Francisco 3, California

37 Lewis Street
Hartford 3, Connecticut

1012 14th Street, N. W.
Washington 5, D. C.

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